



City of Pleasant Hill

MEMORANDUM

TO: Budget Committee Chairman Tim Flaherty
Budget Committee Member Jack Weir

FROM: Andrew Murray, Assistant City Manager
Mary McCarthy, Finance Manager

DATE: March 25, 2014

SUBJECT: Preliminary Fiscal Year (FY) 2014/2019 Five-Year Financial Forecast

Introduction

The City of Pleasant Hill (City) has traditionally published a five-year financial forecast as part of the proposed biennial budget. The five-year forecast has used the proposed biennial budget as the “forecast” of the first two years. The final three years of the forecast have been created by applying escalation factors to the values of the first two years.

As part of the fiscal year (FY) 2014/2016 budget development process, staff recommended to the Budget Committee (Committee) that the City publish a preliminary five-year forecast using FY 2013/2014 projected service levels, expenditures, and revenues as the baseline condition. Using FY 2013/2014 as the baseline makes it easier to see what the City’s financial future is expected to hold if service and staffing levels are held constant at current status quo levels.

A summary of the preliminary forecast is provided below.

Background

As noted, the City has traditionally published a five-year financial forecast that uses the proposed biennial budget as the foundation of the forecast. Staff recommended to the Committee regarding the FY 2014/2016 budget that the City publish a preliminary five-year forecast using the FY 2013/2014 projected service levels, expenditures, and revenues as the baseline condition.

Analysis

In short, staff is expecting that if the City holds service and staffing levels constant at FY 2013/2014 levels, the City will experience relatively modest budgetary shortfalls in FY 2014/2015, FY 2015/2016, and FY 2016/2017 that transition to modest budgetary surpluses in FY 2017/2018 and FY 2018/2019.

To create the preliminary forecast, staff reviewed FY 2013/2014 year-to-date actual expenditures through December 2013 and consulted with department heads to project FY 2013/2014 year-end staffing levels and expenditures. Staff also reviewed year-to-date and historic revenue trends to project year-end revenues. (Note that staff will soon publish the Second Quarter 2013/2014 Revenue and Expenditure Report detailing the year-end projections.)

Staff used the projected FY 2013/2014 year-end revenues and expenditures as the baseline for the preliminary five-year forecast. Staff generally assumed that future staffing and service levels would match those of FY 2013/2014. To forecast revenue and expenditure values in future years, staff applied known or assumed (based on staff research) escalation factors. For example, staff incorporated cost of living adjustments (COLAs) already contained in existing labor Memoranda of Understanding (MOUs) into the forecast of future personnel costs.

Revenue Changes

In short, as shown in the attachment Preliminary Five-Year Forecast (Status Quo), By Account Group, ongoing General Fund revenues are expected to grow over the forecast period at approximately 2.5% annually. Certain revenue streams have particular dynamics that imply growth that is slightly higher or lower than this average level. The major revenue assumptions are summarized in the table below.

Revenue Assumptions	Annual Change	Notes
Property Tax and Property Tax in Lieu	2.6% increase	FY 2014/2015 HdL projection and 2.5% increase thereafter due to anticipated increases in assessed valuations.
Sales and Use Tax	3.1% increase	FY 2014/2015 HdL projection and 3.5% increase thereafter due to CPI and addition of new businesses.
<i>Other Taxes and Assessments:</i>		
Franchise Fees	2.3% increase	Increase based on Department of Finance projected CPI increase of 2.3%
Transient Occupancy Tax	5.0% increase	Increase based on recent trends and economic recovery
Utility Users Tax	1.5% increase	Increased based on historical trends
<i>Licenses and Permits:</i>		

Business License and permits	1.5% increase	Increased based on historical trends
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Significant Revenue Variances

As illustrated in the attached Preliminary Five-Year Forecast (Status Quo), By Account Group, the forecast includes the following notable revenue changes that warrant explanation:

- FY 2013/2014 charges for services are higher than the FY 2014/2015 forecast due to higher Engineering fees/inspections. Several developer deposits collected for fees in advance were recognized as revenue during the year.
- Allied Waste made two \$250,000 community impact payments to the City. The payment received during FY 2013/2014 was the final payment.
- Depending upon claims experience, the Municipal Pooling Authority (MPA) remits a surplus equity distribution (insurance) to members of its insurance pool, which it did in FY 2012/2013 and FY 2013/2014. The City does not budget this revenue until MPA notifies us that we are entitled to an equity distribution.

Expenditure Changes

In short, as shown in the attached Preliminary Five-Year Forecast (Status Quo), By Account Group, ongoing General Fund expenditures are expected to grow over the forecast period at 1.3% annually. Some expenditures, particularly employee benefit costs, are expected to rise more rapidly than this, while others are expected to rise more slowly. The major expenditure assumptions are summarized in the table below.

Expenditure Assumptions	Change	Notes
Salaries and Benefits	Salaries-COLA per MOU Benefits-PERS actuarial estimates Medical premiums	Increased salaries based on COLA per bargaining group's MOU. No other general increase in salaries assumed. Budgeted PERS rates based on PERS actuarial report Budgeted 10% increases in premiums
Debt Service	Principal and Interest per debt service schedule	Budgeted debt service payments based on debt service schedule
Other Expenditures	2.3% increase	Increase based on Department of Finance projected CPI increase of 2.3%

Significant Expenditure Variances

The forecast includes the following notable expenditure changes that warrant explanation:

- The FY 2014/2015 forecast for salaries increased primarily due to the assumption that several vacant positions would be filled before the end of FY 2013/2014.
- The benefits account group increases throughout the forecast primarily due to projected increases in PERS rates and healthcare premiums.
- The non-departmental account group forecasts contributions to Retiree Health Savings Accounts based on unused sick leave for eligible retirees and fluctuates each year depending upon expected retirements.
- The FY 2014/2015 forecast for maintenance and repairs primarily increased during FY 2014/2015 due to the expectation of non-deferrable additional costs for the maintenance of City buildings, streets, and street lights.
- The budget for Economic Development Grants and Loans fluctuates depending upon anticipated needs.

The attachment Preliminary Five-Year Forecast (Status Quo), Expenditures by Department forecasts changes in expenditures by department, to provide a sense of how resource allocation is expected to grow for different service areas. It presents, in a different view, the same underlying expenditure forecast data contained in Preliminary Five-Year Forecast (Status Quo), By Account Group. The following notable expenditure-by-department changes warrant explanation:

- The FY 2014/2015 forecast for the City Manager Department includes \$100,000 budgeted for City Manager Discretionary funds, which is not shown in the FY 2012/2013 actual or FY 2013/2014 projected expenditures because those funds are actually expended through other departments.
- The FY 2014/2015 forecast for the City Clerk includes the salary and benefits for 67% of a new Senior Management Analyst. This position has been vacant during FY 2013/2014.
- The FY 2014/2015 forecast for the Finance Department includes salary and benefits for a Chief Technology Officer, a position which has been vacant during FY 2013/2014.
- The FY 2014/2015 forecast for the Maintenance Department includes salary and benefits for an Administrative Secretary, a position which has been vacant during FY 2013/2014. Additionally, the FY 2014/2015 forecast includes increased projected expenditures for sign materials, landscape materials, and maintenance of City buildings, streets, and street lights.
- Non Departmental Department: The FY 2014/2015 forecast includes anticipated future contributions to Retiree Health Savings Accounts for retirees eligible for this benefit, which has incidentally been eliminated for new employees. This amount fluctuates each year depending upon projected retirements.

Forecasted Shortfalls/Surpluses

The table below summarizes the forecasted shortfalls/surpluses. Note that this is preliminary. A revised forecast will be published with the proposed budget. Note that this later forecast will include three different scenarios (optimistic, moderate/most likely, and pessimistic).

Budget Item (in 000s)	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19
Ongoing Revenue	\$20,083	\$20,332	\$20,909	\$21,507	\$22,128	\$22,772
One-Time Revenue	\$ 289					
Total Revenue	\$20,372	\$20,332	\$20,909	\$21,507	\$22,128	\$22,772
Ongoing Expenditures	\$19,726	\$21,148	\$21,675	\$21,358	\$21,440	\$20,991
One-Time Expenditures	\$ 600	\$ 205	\$ 280	\$ 286	\$ 291	\$ 297
Total Expenditures	\$20,326	\$21,353	\$21,955	\$21,644	\$21,731	\$21,288
Ongoing Surplus/(Shortfall)	\$ 357	(\$ 816)	(\$ 766)	\$ 149	\$ 688	\$ 1,781
Total Surplus/(Shortfall)	\$ 46	(\$ 1,021)	(\$ 1,046)	(\$ 137)	\$ 397	\$ 1,484
Ending Fund Balance	\$ 12,713	\$ 11,692	\$ 10,646)	\$10,509	\$10,906	\$ 12,390

The City is projecting to end FY 2013/2014 with a General Fund fund balance of \$12,713,000. The forecast assumes that the City will use fund balance as a one-time revenue source to balance the budget in each year with a forecasted deficit. If the City does so, the forecast still anticipates that the City will end FY 2018/2019 with a fund balance of \$12,390,000, due to the emergence of a surplus regarding ongoing revenues relative to ongoing expenditures beginning in FY 2016/2017. Note that the reserve policy recently endorsed by the Budget Committee established a General Fund reserve requirement of \$8,890,000.

Staff Recommendation

Staff recommends that the Budget Committee review the preliminary forecast and provide feedback on the assumptions, which can be incorporated into the final forecast presented with the budget proposal.

Attachments: Preliminary Five-Year Forecast (Status Quo), By Account Group
Preliminary Five-Year Forecast (Status Quo), Expenditures by Department